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NABE OUTLOOK

NABE MACROECONOMIC FORECAST
November 1988

This report presents the consensus of macroeconomic forecasts made by a panel of professional forecasters drawn from the membership of the National Association of Business Economists. Most of the forecasts submitted were made in late October or early November and are being reported in November 1988. This survey is one of three taken regularly by NABE; the other inquiries are the Industrial Outlook and the Economic Policy Assessment surveys.

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CURRENT HIGHLIGHTS - SLOWER GROWTH ON THE HORIZON

* NABE's panel of economic forecasters are looking for a marked slowdown in economic activity for 1989, with year-over-year median growth in real GNP projected at 2.5%. While this forecast is up slightly from the September 1988 forecast of 2.3%, it is significantly slower than the 3.8% growth now expected for this year.

* According to NABE's panel of experts, the main reason for the slowdown is slower growth in both consumer spending and business fixed investment. The 2.0% increase forecast for 1989 consumer spending would be the slowest growth since the current recovery began in 1983. The business fixed investment forecast of 4.3%, while at or slightly above the long-term trend growth rate, is still down sharply from the 10.1% expected this year.

* Exports are expected to be an area of real strength in 1989, as the trade balance continues to show improvement. NABE's forecasting panel is projecting a $120 billion deficit in the trade account next year, down from the $135 billion deficit anticipated in 1988.

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* The NABE panel continues to expect an increase in the inflation rate. The GNP deflator is forecast to increase by 4.4% next year, up from the moderate 3.3% rate projected in 1988. The Consumer Price Index is expected to rise even more rapidly, showing a 5.0% year-over-year increase in 1989.

* The vast majority of panelists (88%) still expect a recession sometime during the next two years, but more respondents now expect it to arrive in 1990, rather than earlier. However, a substantial minority (40%) still expect a downturn in 1989.

* Interest rates, both short and long, are still expected to peak in the first half of 1989. However, rises are expected to be modest, with the three month treasury bill rate peaking at 7.6%, and thirty year bonds topping out at 9.5% -- up only 30 to 50 basis points from October rates.

THE DETAILED OUTLOOK -- CONTINUED RECOVERY, BUT AT A SLOWER PACE

November's forecast for 1989 is a bit more bullish than the two previous forecasts, in May and August of this year. Real growth is now expected to be 2.5% on a year-over-year basis, up from the 2.3% projection in August. One reason for the slightly stronger forecast is a more robust business fixed investment outlook. NABE's panel of experts is now expecting nonresidential fixed investment to rise 4.3% next year, versus the old forecast of 3.7%. The real net export deficit is still expected to improve in 1989, at -$76 billion versus 1988's -$96 billion. However, the current forecast shows some deterioration from August's level of -$67 billion. Other forecast components remain relatively unchanged.

While the consensus forecast has not changed much, the spread between the pessimistic and optimistic panel members has tightened somewhat, as can be seen from the table below:

Real GNP Growth (1988Q4-1989Q4)	Estimates of Survey in: August	November
Median Forecast	2.0%	2.2%
Upper Quartile	3.0	3.2
Lower Quartile	0.6	1.1
Spread -- Upper-Lower	2.4	2.1

The tighter spread is due to slightly less pessimistic forecasts by the lower quartile of respondents. This is consistent with the panel's answers on the timing of the next recession, which is now not expected to arrive until late 1989 or early 1990.

With three quarters of actual data in, it is no surprise that the 1988 forecast has converged at 3.8% for real GNP growth. Industrial production is expected to grow at a faster 5.5% clip, a reflection of the significant improvement in the trade deficit. Real net exports for the year are now expected to be -$96 billion, substantially better than the -$129 billion reported in 1987, although slightly worse than the forecast of -$91 billion in the August forecast.

INTEREST RATE PEAK EXPECTED IN 1989 SECOND QUARTER

As an optional question, we requested that respondents provide a quarterly path for the interest rate predictions. The quarterly medians of those responding, along with the upper and lower quartiles, are shown below:

Estimate	88Q3A	88Q4E	89Q1F	89Q2F	89Q3F	89Q4F
91 Day T-Bills - median	7.0	7.4	7.5	7.6	7.4	7.1
- upper 25%		7.7	8.1	8.2	8.0	8.0
- lower 25%		7.1	7.0	6.7	6.5	6.1
30 Year T-Bonds - median	9.2	9.1	9.4	9.5	9.4	9.1
- upper 25%		9.5	9.8	10.0	10.1	9.9
- lower 25%		8.9	8.8	8.8	8.6	8.3

A = Actual; E = Estimate; F = Forecast

The median and top quartile forecasts have rates peaking in the middle of next year, while the bottom quartile expects a continual decline from current levels.

THE NEXT RECESSION -- EXPECTED A BIT LATER

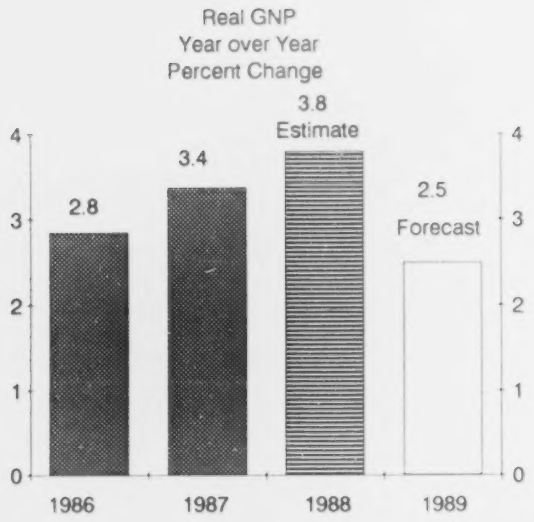
The panel has again pushed out in time its guess as to when the next recession will begin. Fewer than half of the respondents now expect the downturn to arrive in 1989; however, over 88% still expect one before the end of 1990, as can be seen below:

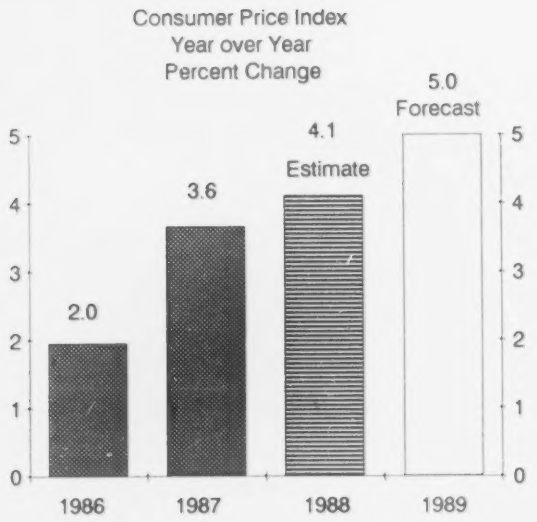
	% of Respondents in:		
Next Recession Begins In:	May 1988	August 1988	November 1988
1988	5.6%	0.0%	0.0%
1989	57.4	47.3	40.0
1990	31.5	41.8	48.3
1991	1.9	9.1	8.3
1992 or later	3.8	1.8	3.3

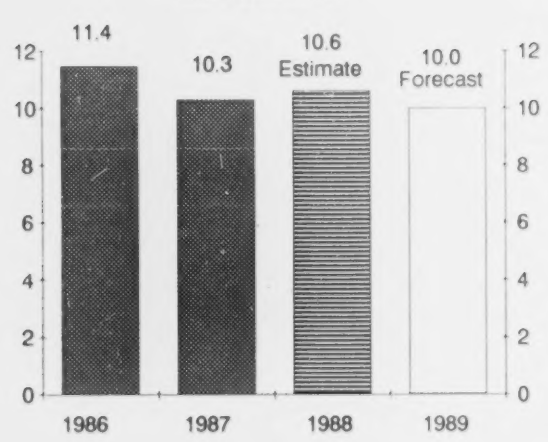
TABLE 1
SUMMARY OF NABE MEDIAN FORECASTS

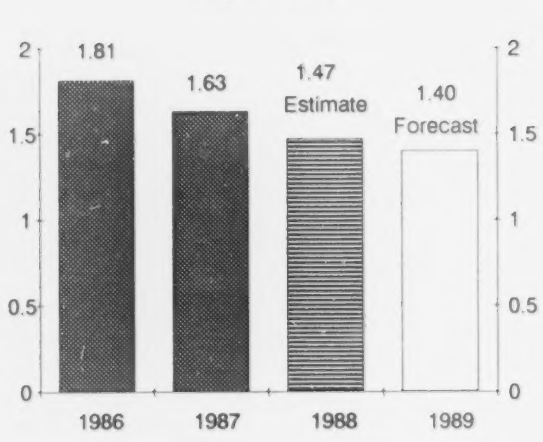
	1987 ACTUAL	1988E Feb 88 SURVEY	1988E May 88 SURVEY	1988E Aug 88 SURVEY	1988E Nov 88 SURVEY*	1989 Est. May 88 SURVEY	1989 Est. Aug 88 SURVEY	1989 Est. Nov 88 SURVEY*
4TH QUARTER TO 4TH QUARTER								
Real GNP	5.0%	2.0%	2.3%	3.1%	2.8%	2.0%	2.0%	2.2%
Consumer Price Index	4.5%	4.2%	4.3%	4.4%	4.4%	5.0%	5.1%	5.0%
ANNUAL AVERAGES								
Real GNP	3.4%	2.2%	2.9%	3.9%	3.8%	2.2%	2.3%	2.5%
Personal Consump. Expend.	2.7%	NA	2.0%	2.5%	2.7%	2.0%	2.0%	2.0%
Nonresident. Fixed Invest	2.8%	3.8%	8.3%	10.3%	10.1%	2.5%	3.7%	4.3%
Net Exports	-$128.9	NA	-$117	-$91	-$96	-$93	-$67	-$76
Nominal Magnitudes:								
Merchandise trade bal.	-$170.3	-$150	-$150	-$135	-$135	-$130	-$120	-$120
Fed Budget Deficit (FY)	-$149.5	-$157	-$155	-$150	-$155	-$151	-$150	-$150
Corp Profits (after tax)	10.1%	3.0%	9.1%	9.5%	10.8%	4.7%	5.0%	5.2%
Real Magnitudes:								
Unemployment Rate (Civil)	6.2%	6.0%	5.6%	5.5%	5.5%	5.9%	5.6%	5.6%
Industrial production	3.8%	NA	4.5%	5.2%	5.5%	2.9%	2.9%	3.0%
Housing starts (Mils.)	1.68	1.52	1.51	1.48	1.47	1.49	1.41	1.40
Auto Sales (Millions)	10.3	9.8	10.3	10.5	10.6	10.0	10.0	10.0
Inflation & Interest Rates:								
Consumer Price Index	3.7%	4.0%	4.0%	4.1%	4.1%	4.7%	5.0%	5.0%
GNP deflator	3.3%	NA	3.1%	3.1%	3.3%	4.2%	4.4%	4.4%
Treasury Bills (3 mo.)	5.8%	NA	6.1%	6.6%	6.6%	6.8%	7.4%	7.5%
Treasury Bonds (30 yr.)	8.6%	NA	9.1%	9.2%	9.0%	9.5%	9.6%	9.5%

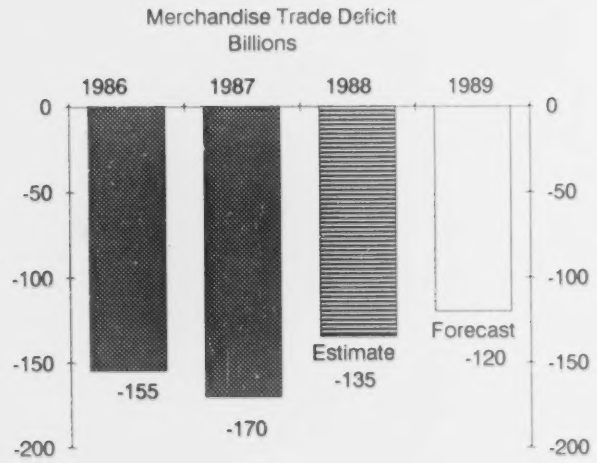
NA = Not available in earlier surveys.
* = Based upon 66 forecasts submitted in November, 1988.

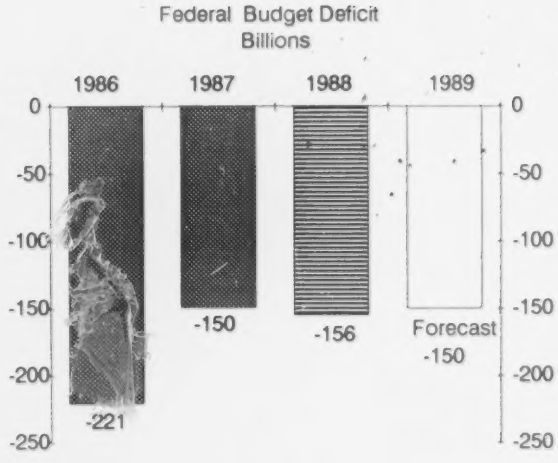

Real GNP
Year over Year
Percent Change
2.8
3.4
3.8
Estimate
2.5
Forecast
1986
1987
1988
1989


Consumer Price Index
Year over Year
Percent Change
2.0
3.6
4.1
Estimate
5.0
Forecast
1986
1987
1988
1989


New Car Sales
Millions of Units
11.4
10.3
10.6
Estimate
10.0
Forecast
1986
1987
1988
1989


Housing Starts
Millions of Units
1.81
1.63
1.47
Estimate
1.40
Forecast
1986
1987
1988
1989


Merchandise Trade Deficit
Billions
1986
1987
1988
1989
-155
-170
Estimate
-135
Forecast
-120


Federal Budget Deficit
Billions
1986
1987
1988
1989
-221
-150
-156
Forecast
-150